

CITY OF ALAMEDA

Memorandum

To: Honorable Mayor and
Members of the City Council

From: Lisa Goldman
Acting City Manager

Date: May 17, 2011

Re: Approve Revised Underwriting Guidelines for the Down Payment
Assistance Program

BACKGROUND

In 1998, the City Council and the Community Improvement Commission of the City of Alameda (CIC) funded two new loan programs to assist first time homebuyers and help the City reach its adopted goal of 60 percent homeownership. In 2003, the City Council and CIC approved a restructured Down Payment Assistance (DPA) program, which combined elements of the two prior programs and added more generous financial assistance and greater flexibility to match better residential market conditions. The definition of a "first time homebuyer" sets forth the parameters within which participants in the DPA program are eligible. As defined currently, this definition creates more restrictive qualification criteria than that established by the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration (FHA) or surrounding communities. Staff is seeking to refine the definition to ensure greater success of the program in qualifying first time homebuyers for DPA assistance.

DISCUSSION

The City's DPA program has been funded annually since its inception in 1998. FY 2010-11 DPA funding, from the City's affordable housing in lieu funds and affordable housing fees, totals \$450,000. In addition, the City has a \$36,000 contract with the Bay Area Homebuyers Agency (BAHBA) to market the DPA program through free first time homebuyer workshops and to work with prospective homebuyers to underwrite and prepare the DPA loans for City approval. Last fiscal year, 94 families attended three workshops; 13 workshop attendees purchased homes in Alameda; and seven DPA loans were funded. Five loans have been made this fiscal year, and two more are being processed.

BAHBA works with prospective home purchasers on the entire home buying process, including counseling on pre-approval letters, securing a first mortgage, underwriting DPA loans and leveraging other first time homebuyer assistance to qualify families for

home ownership. In comparing the eligibility criteria for first time homebuyers in the City with criteria from Hayward, San Leandro, Pinole, Antioch, South San Francisco and Brisbane, there are a range of differences. Depending on the jurisdiction, household income is usually capped between 80% and 120% of area median income (AMI). Some cities require residency in the jurisdiction for a year prior to qualification, while others require the use of the Workforce Initiative Subsidy for Homeownership (WISH) down payment assistance grant program. All jurisdictions, with the exception of the City of Alameda, define a first time homebuyer as someone who has not owned a primary residence for three years from the date of purchase. The City defines a first time homebuyer as someone who has not owned real estate for three (3) years from the date of purchase.

HUD's definition of First Time Homebuyer includes language that states, "An individual who has had no ownership in a principal residence during the three-year period ending on the date of purchase of the property". This includes a spouse (if either meets the above test, they are considered first time homebuyers). One of the FHA's criteria is whether or not you have owned a home. If you have never owned a home, you are considered a first-time homebuyer. In addition, you are allowed to be a previous homeowner and still qualify as a first time homebuyer if you have not been an owner in a primary residence for at least three years leading up to your purchase.

Attached are the current Underwriting Guidelines for the Down Payment Assistance Program for the City of Alameda. The definition of first time homebuyer states that, to qualify, an applicant cannot have owned real estate within the last three years. This more restrictive definition results in lower success rates in the DPA program since it disqualifies anyone who may own property in another city or jurisdiction that is not their primary residence.

Staff is seeking to refine the definition of a first time homebuyer to be consistent with the HUD language. The proposed new definition of a first time homebuyer shall be: An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse (if either meets the above test, they are considered first-time homebuyers). If the applicant owns other property, any income generated from the property must be included in the income calculations for qualifying for First Time Homebuyer Assistance.

Staff believes this modification will result in better use of the DPA program and greater success rates overall for funding utilization.

FINANCIAL IMPACT

There is no financial impact from authorizing the refinement of the definition of a first time homebuyer for eligibility in the DPA program.


ENVIRONMENTAL REVIEW

This action is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA guidelines section 15061(b)(3), because it can be seen with certainty that these revised guidelines will not result in a significant impact to the environment.

RECOMMENDATION

Approve revised underwriting guidelines for the Down Payment Assistance Program.

Respectfully submitted,



Michael T. Pucci, Executive Director
Housing Authority

By:



Debbie Potter
Housing Development and Programs Manager

Exhibit:

Down Payment Assistance Program Underwriting Guidelines

Downpayment Assistance Program Underwriting Guidelines

Loan Summary & Eligibility	
Borrower Eligibility / Income	<p>Borrowers whose household income does not exceed 120% AMI, as determined by HUD and adjusted for household size are eligible for the program. Certain program funding restricts income to 80% AMI. (See attached program guidelines.)</p> <p>An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse (if either meets the above test, they are considered first-time homebuyers). If the applicant owns other property, any income generated from the property must be included in the income calculations for qualifying for First Time Homebuyer Assistance. (Exception, HUD's displaced homeowner standard).</p>
Household Income	The income of all persons 18 years and older who will reside in the property will be considered. HUD's Adjusted Gross Income methodology, as defined by the IRS form 1040 will be used. Web address: https://webapps1.hud.gov/hfc/calculator/
Maximum Loan Amounts	Maximum loan amounts are between \$50,000 and \$80,000 depending on income category and availability of funds.
Loan Term and Repayment	Fifteen-year term. Loan is interest free for the first five years, and converts to a shared-appreciation mortgage in month 61. Repayment due upon sale, transfer, refinancing, or Homebuyer's vacancy of the property prior to 15 years. Refer to program guidelines for details.
Owner Occupancy Requirements	Borrower must occupy the property within 60 days of closing. Borrowers must occupy property as primary residence for life of loan.
Homebuyer Education Requirements	Prior to submitting loan application, all borrowers must have documented evidence of completing an approved homebuyers education course within the last 2 years.
Property Eligibility	Single family residences located in the City of Alameda, including condominiums, townhouses, and co-ops.
Underwriting Criteria	
CLTV	Maximum 100%.
Borrower Cash Contribution	Minimum of 1% of purchase price from borrower's own funds.
Credit Score	Minimum credit score per California Housing Finance Agency (CalHFA) credit guidelines, or minimum of 4 tradelines of non-traditional credit.
Credit Documentation	
Non-Traditional Credit	Fannie/Freddie guidelines
Derogatory Credit	Fannie/Freddie guidelines
Bankruptcy, Chapter 7 & 13 & Foreclosure/ Deed-in-Lieu	Fannie/Freddie guidelines
Re-established Credit	Fannie/Freddie guidelines

Disputed Credit	Fannie/Freddie guidelines
Credit Reports	Fannie/Freddie guidelines
Contingent Liabilities	Fannie/Freddie guidelines
Credit Inquiries	Fannie/Freddie guidelines
Judgments, Collections & Charge-offs	Fannie/Freddie guidelines
Installment Debt	Fannie/Freddie guidelines
Deferred Student Loans	Fannie/Freddie guidelines
401K Loans	Fannie/Freddie guidelines
Employment -Income Documentation	
Verification of Employment	Fannie/Freddie guidelines
Commissioned Employees	Fannie/Freddie guidelines
Self Employed Borrowers	Fannie/Freddie guidelines
Length of Self Employment	Fannie/Freddie guidelines
Gaps of Employment	Fannie/Freddie guidelines
Secondary Income	Fannie/Freddie guidelines
Alimony / Child Support	Fannie/Freddie guidelines
Auto Allowance	Fannie/Freddie guidelines
Tax Exempt Income	Fannie/Freddie guidelines
Trailing Co-borrower	Fannie/Freddie guidelines
Asset Documentation	
Verification of Assets	Fannie/Freddie guidelines
Cash on Hand	Fannie/Freddie guidelines
Gift Funds	Fannie/Freddie guidelines
Interested Party Contributions	Fannie/Freddie guidelines
Liquidation of Assets	Fannie/Freddie guidelines
Sale of Asset	Fannie/Freddie guidelines
Unsecured Loans	Fannie/Freddie guidelines

Please Note: First mortgage must be a fully documented loan.